

Kazyna Capital Management JSC

Consolidated financial statements

Year ended 31 December 2010

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Kazyna Capital Management JSC:

We have audited the accompanying consolidated financial statements of JSC Kazyna Capital Management ("the Company") and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2010, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of consolidated the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

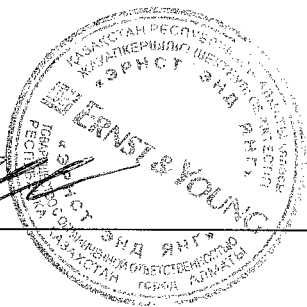
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Kazyna Capital Management as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

[Signature]

Evgeny Zhemaletdinov
Auditor/General Director
Ernst & Young LLP



State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

1 April 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(In thousands of Tenge)

	<i>Note</i>	<i>2010</i>	<i>2009</i>
Assets			
Cash and cash equivalents	5	11,821,187	15,152,514
Amounts due from credit organisations	6	30,056,179	29,778,090
Financial instruments at fair value through profit or loss	7	2,928,430	1,477,424
Investment securities:			
- available-for-sale	8	26,320,993	7,342,673
- held-to-maturity	8	4,431,669	–
Loan to related party		–	6,000,000
Property and equipment	9	40,941	41,585
Intangible assets		9,952	9,569
Current income tax assets	10	432,734	60,120
Deferred income tax assets	10	4,847	1,886
Other assets		25,403	20,207
Total assets		76,072,335	59,884,068
Liabilities			
Trade and other receivables		57,251	53,182
Financial instruments at fair value through profit or loss	7	–	237,354
Total liabilities		57,251	290,536
Equity			
Share capital	11	67,040,000	52,040,000
Revaluation reserve for available-for-sale securities		(67,660)	6,835
Foreign currency revaluation reserve		(15,330)	1,239
Retained earnings		9,046,613	7,533,813
Total equity attributable to shareholder of the Group		76,003,623	59,581,887
Non-controlling interest		11,461	11,645
Total equity		76,015,084	59,593,532
Total equity and liabilities		76,072,335	59,884,068

Signed and authorised for release on behalf of the Management Board of the of the Group

Alpamysov A. A.

Chairman of the Board

Kim I. L.

Chief Accountant

1 April 2011

The accompanying notes on pages 6 to 30 are an integral part of these financial statements

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

(In thousands of Tenge)

	<i>Note</i>	<i>2010</i>	<i>2009</i>
Interest income			
Amounts due from credit institutions		2,156,493	1,735,818
Investment securities		548,879	1,178,463
Loan to related party		210,767	864,075
Trading securities pledged under repo agreements		—	162,175
Interest expenses		2,916,139	3,940,531
Trading securities pledged under repo agreements		—	(570)
Net interest income		2,916,139	3,939,961
Non-interest income			
Net gains from investment securities available-for-sale		292,368	—
Net gains /(losses) from other financial instruments at fair value through profit or loss		24,260	(878,354)
Net gains from financial instruments at fair value through profit or loss		143,055	(54,392)
		459,683	(932,746)
Non-interest expenses			
Net gains /(losses) from foreign currencies			
- translation differences		(185,509)	3,394,285
- dealing		(6,946)	13,267
Personnel expenses	12	(251,188)	(231,676)
Depreciation of property and equipment and amortization of intangible assets		(13,608)	(10,419)
Other operating expenses	12	(242,656)	(162,075)
Other (expenses) /income		(423)	3,175
		(700,330)	3,006,557
Net non-interest (expense)/income		(240,647)	2,073,811
Profit before income tax expenses		2,675,492	6,013,772
Income tax expenses	10	(433,435)	(1,150,867)
Profit for the year		2,242,057	4,862,905
Attributable to:			
-shareholder of the Group		2,242,241	4,862,940
-non-controlling interest		(184)	(35)

The accompanying notes on pages 6 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2010***(In thousands of Tenge)*

	<i>Note</i>	<i>2010</i>	<i>2009</i>
Profit for the year		2,242,057	4,862,905
Other comprehensive income			
Unrealised gains/(losses) on investment securities available-for-sale		(366,863)	6,632
Realised gains on investment securities available-for-sale reclassified to the income statement		292,368	203
Currency translation differences		(16,569)	1,239
Other comprehensive income for the year, net of tax		(91,064)	8,074
Total comprehensive income		2,150,993	4,870,979
Attributable to:			
-shareholder of the Group		2,151,177	4,871,014
-non-controlling interest		(184)	(35)

The accompanying notes on pages 6 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(In thousands of Tenge)

	<i>Attributable to shareholders of the Group</i>				
	<i>Share capital</i>	<i>Retained earnings</i>	<i>Foreign currency revaluation reserve</i>	<i>Revaluation reserve for available-for-sale securities</i>	<i>Non-controlling interests</i>
At 31 December 2008					
Total comprehensive income / (loss) for the year	52,040,000	2,785,311	-	-	-
				54,825,311	54,825,311
Increase in share capital (Note 11)	-	4,862,940	1,239	6,835	(35)
Dividends to the shareholder of the Group	-	-	-	-	-
(Note 11)	-	(114,438)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	11,680
				(114,438)	(114,438)
At 31 December 2009					
Total comprehensive income for the year	52,040,000	7,533,813	1,239	6,835	11,645
Increase in share capital (Note 11)	15,000,000	2,242,241	(16,569)	(74,495)	(184)
Dividends to the shareholder of the Group	-	-	-	15,000,000	-
(Note 11)	-	(729,441)	-	(729,441)	-
					(729,441)
At 31 December 2010	67,040,000	9,046,613	(15,330)	(67,660)	11,461
				76,003,623	76,015,084

The accompanying notes on pages 6 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(In thousands of Tenge)

	<i>Note</i>	<i>2010</i>	<i>2009</i>
Cash flows from operating activities:			
Interest received		2,356,420	3,002,415
Interest expenses		—	(570)
Personnel expenses paid		(231,082)	(248,676)
Other operating expenses paid		(292,239)	(144,897)
Realised gains less losses from dealing in foreign currencies		(6,946)	13,267
Other operating expenses /income received		(24)	1,847
Cash flows from operating activities before changes in operating assets and liabilities		1,826,129	2,623,386
<i>Net (increase)/ decrease in operating assets</i>		—	—
Amounts due from credit institutions		(487,299)	(26,726,245)
Financial instruments at fair value through profit		(1,307,950)	(1,050,753)
Investment securities:			
- available-for-sale		(18,344,411)	(7,131,873)
- held-to-maturity		(4,449,137)	17,278,839
Loan to related party		6,000,000	6,000,000
Receivables under reverse repurchase agreements		—	10,384,013
Other assets		(5,196)	(2,344)
<i>Net increase / (decrease) in operating liabilities</i>			
Financial instruments at fair value through profit		(213,094)	(641,982)
Other liabilities		40,552	24,751
Net cash flows from operating activities before income tax		(16,940,406)	757,792
Income tax paid		(809,010)	(1,176,266)
Net cash used in operating activities		(17,749,416)	(418,474)
Cash flows from investing activities			
Purchase of investment securities		(74,495)	—
Proceeds from sale and redemption of investment securities		259,269	—
Purchase of property and equipment	9	(15,698)	(2,084)
Proceeds from sale of property and equipment		(397)	—
Purchase of intangible assets		(4,580)	(6,484)
Net cash from / (used in) investing activities		164,099	(8,568)
Cash flows from financing activities			
Proceeds from issue of share capital		15,000,000	—
Dividends paid to shareholders of the Group		(729,441)	(114,438)
Net cash from / (used in) financing activities		14,270,559	(114,438)
Effect of exchange rates changes on cash and cash equivalents		(16,569)	891,226
Net increase/decrease in cash and cash equivalents		(3,331,327)	(349,746)
Cash and cash equivalents, beginning	5	15,152,514	14,802,768
Cash and cash equivalents, ending	5	11,821,187	15,152,514

The accompanying notes on pages 6 to 30 are an integral part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Tenge)

1. Principal activities

Joint Stock Company Kazyna Capital Management (“the Company”) and its subsidiaries (together referred to as “the Group”) was established by the Government of the Republic of Kazakhstan on 7 March 2007. In 2010 and 2009, JSC “Samruk-Kazyna” owned 100% shares of the Group. The ultimate principal shareholder of the Group is the Government of the Republic of Kazakhstan.

The principal activities of the Group are the establishment of and participation in investment funds and investments in financial instruments.

Legal address of the Company’s Head Office is 291/3a, Dostyk ave., Almaty, Republic of Kazakhstan.

As at 31 December 2010 the Group had five subsidiaries (2009: four):

Name	Country of incorporation	Principal activities	Ownership, %	
			2010	2009
JSC Kazakhstan-Tajikistan fund of direct investments	Republic of Kazakhstan	Participation in investment projects	80.00%	80.00%
Kazyna Seriktes B.V.	The Netherlands	Investments in Falah Growth Fund	99.90%	99.90%
Kazyna Investment Holding Coooperatief U.A.	The Netherlands	Investments in Falah Growth Fund	100.00%	100.00%
Nurzhol Energy LLC	Republic of Kazakhstan	Investments in Macquarie Renaissance Infrastructure Fund	100.00%	100.00%
MRIF CASP C.V.	The Netherlands	Investments in Macquarie Renaissance Infrastructure Fund	99.00%	—

All of the above subsidiaries, except for MRIF CASP C.V., were established by the Company in 2008. MRIF CASP C.V. was established in 2010.

2. Basis of preparation**General**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements are presented in thousands of Kazakh Tenge (“KZT” or “Tenge”), unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities, financial instruments available-for-sale that have been measured at fair value.

The following amendments were made in the statement of financial position as at 31 December 2009 in order to bring it in compliance with presentation as at 31 December 2010:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

2. Basis of preparation (continued)**General (continued)**

Below are the revised items of the consolidated income statement for 2009.

<i>31 December 2009</i>	<i>As reported previously</i>	<i>Reclassification</i>	<i>As reported herein</i>	<i>Comments</i>
Share of losses of associate	(142,204)	142,204	–	
Net gains /(losses) from financial instruments at fair value through profit or loss	87,812	(142,204)	(54,392)	Reclassification of share of losses of associate into Net gains /(losses) from financial instruments at fair value through profit or loss
Net profit from operations with foreign currency	3,407,552	(3,407,552)	–	
Net gains /(losses) on foreign currency transactions – translation difference	–	3,394,285	3,394,285	Allocation of Net profit from operations with foreign currency into Net gains /(losses) on foreign currency transactions – translation difference and Net gains /(losses) on foreign currency transactions – dealing
Net gains /(losses) on foreign currency transactions – dealing	–	13,267	13,267	
General and administrative expenses	(404,170)	404,170	–	
Personnel expenses		(231,676)	(231,676)	Separation following items from general and administrative expenses: Personnel expenses, Depreciation of property and equipment and amortisation of intangibles
Depreciation of property and equipment and amortisation of intangibles		(10,419)	(10,419)	
Other operating expenses		(162,075)	(162,075)	Other operating expenses

3. Summary of accounting policies**Changes in accounting policies**

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows.

IAS 24 “Related party disclosures” (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group has decided to early adopt the revised IAS 24 from 1 January 2010. The amendment did not affect the Group’s consolidated financial statements.

Amendment to IAS 39 “Financial Instruments: recognition and measurement” - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Group’s consolidated financial statements as the Group has not entered into any such hedges.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. These amendments did not affect the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Changes in accounting policies (continued)***IFRIC 17 "Distribution of Non-Cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information. This amendment had no impact on the Group's consolidated financial statements.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Investments in associates**

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Those investment funds in which the Group has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, at initial recognition are recorded as financial instruments at fair value through profit or loss in accordance with the scope exemption in IFRS 28 "Investments in Associates of investment funds".

Initial recognition is made at fair value on the transaction date with subsequent measurement at fair value as at or prior the reporting date. All changes in the fair value of investment funds are recorded in the consolidated income statement.

Financial assets*Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date when asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Financial assets (continued)***Determination of fair value*

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days from the date of origination and are free from contractual encumbrances.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowances for impairment.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Leases***Operating - Group as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Impairment of financial assets (continued)***Financial assets (continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or ex.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Taxation

The current corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current income tax is calculated using tax rates that are enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Kazakhstan also has various operating taxes, that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<i>Years</i>
Computer equipment	From 3 to 6
Motor vehicles	From 4 to 7
Other	From 5 to 15

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Intangible assets**

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives and recorded within profit or loss. The useful lives of intangible assets are 5 years.

Authorised capital*Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event in accordance with IAS 10 "Subsequent events" and are appropriately disclosed.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

3. Summary of accounting policies (continued)**Foreign currency translation**

The consolidated financial statements are presented in Kazakh tenge, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as net losses / gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

Below are the exchange rates at the year end which have been used by the Group when preparing financial statements:

	<i>31 December</i> <i>2010</i>	<i>31 December</i> <i>2009</i>
KZT/USD	147.50	148.46
KZT/EURO	196.88	213.95
KZT/GBP	228.29	239.60

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRS 9 "Financial Instruments" (first phase)

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. A requirement relating to accounting of changes in fair value specified by credit risk was introduced with respect to financial liabilities through profit or loss using fair value measurement in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Group, as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***3. Summary of accounting policies (continued)****Future changes in accounting policies (continued)***Standards and interpretations issued but not yet effective (continued)*

IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on financial statements of the Group.

IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.

IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Group.

Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

Amendments to IFRS 7 "Financial instruments: disclosures"

In October 2010 the IASB issued amendments to IFRS 7 effective for financial years beginning on or after 1 July 2011. Amendments introduce additional requirements to disclosure of information on assets which were transferred but not derecognized. The Group expects that these amendments will have no impact on financial position or performance of the Group.

4. Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	2009
Current accounts with other credit institutions		
SB HSBC Bank Kazakhstan JSC	46,581	–
Halyk Bank of Kazakhstan JSC	353,422	1,619,260
Kazkommertsbank JSC	30,806	1,884
Centras Securities JSC	15,022	–
Kaspi Bank JSC	–	8
	445,831	1,621,152
Time deposits with contractual maturities less than 90 days		
SB HSBC Bank Kazakhstan JSC	7,375,027	5,374,005
Kaspi Bank JSC	4,000,329	–
Centras Securities JSC	–	8,157,357
	11,375,356	13,531,362
	11,821,187	15,152,514

6. Amounts due from credit institutions

Amounts due from credit institutions comprise term deposits with maturity over 90 days with Kazakhstani and foreign banks at the territory of the Republic of Kazakhstan:

	2010	2009
SB Sberbank of Russia JSC	9,592,228	–
Kaspi Bank JSC	8,010,143	12,237,581
Tsesna Bank JSC	5,853,169	–
Eurasian Development Bank JSC	2,973,891	–
Halyk Bank of Kazakhstan JSC	2,084,389	11,257,112
Bank CenterCredit JSC	1,542,329	6,283,397
ATF Bank JSC	30	–
	30,056,179	29,778,090

7. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss

Assets	2010	2009
Corporate shares	2,928,430	1,319,748
Corporate bonds	–	157,676
	2,928,430	1,477,424
Liabilities	2010	2009
Forward currency contract	–	237,354
	–	237,354

Financial instruments at fair value through profit or loss comprise unquoted equity securities with total cost of KZT 2,928,430 thousand (2009: KZT 1,319,747 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

7. Financial instruments at fair value through profit or loss (continued)

Unquoted equity securities comprise equity securities of the following investment funds:

	<i>Ownership</i>	<i>2010</i>	<i>2009</i>
MACQUARIE RENAISSANCE Infrastructure Fund	4.80%	781,548	14,753
Wolfenson Capital Partners	9.94%	778,940	874,795
Aureos Central Asia Fund	14.28%	342,788	332,438
Falah Growth Fund	10.00%	338,236	73,199
CITIC-KAZYNA Investment	50.00%	294,387	16,815
Kazakhstan Growth Fund	49.99%	284,682	7,748
ADM KCRF	49.50%	106,889	—
Kazakhstan Hong Kong General Partner BV	25.00%	872	—
CITIC Kazyna Manager Ltd	49.50%	88	—
Unquoted equity securities		2,928,430	1,319,748

According to the Group's accounting policy specified in Note 3, investment funds in which the Group has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, at initial recognition are recorded as financial instruments at fair value through profit or loss in accordance with the scope exemption in IFRS 28 "Investments in Associates of investment funds".

Initial recognition is made at fair value as on the transaction date with the subsequent measurement at fair value as at or prior to the reporting date. All changes in fair value of investment funds are recorded in the consolidated statement of income.

Financial activity of each fund is described below:

2010

<i>Funds</i>	<i>Ownership ip, %</i>	<i>Country</i>	<i>Activity</i>	<i>Group's share in net income / (loss)</i>	<i>Total assets</i>	<i>Total liabilities</i>	<i>Net assets</i>
CITIC-Kazyna Investment Fund LP	50.00%	Cayman Islands	Investments Investment fund	(296,438)	23,557	27,033	(3,476)
CITIC Kazyna Manager Ltd	49.50%	Cayman Islands	management	107,569	339,003	121,199	217,804
Falah Growth Fund LP	10.00%	Cayman Islands	Investments	(23,203)	2,638,531	1,002	2,637,529
Macquarie Renaissance Infrastructure Fund	4.80%	Great Britain	Investments	(52,201)	9,587,500	1,017,750	8,569,750
Kazakhstan Growth Fund LP	49.99%	Cayman Islands	Investments	(135,828)	131,696	69,547	62,149
Wolfenson Capital Partners LP	9.94%	Cayman Islands	Investments	(67,895)	4,947,985	56,655	4,891,330
Aureos Central Asia Fund LLC	14.28%	Republic of Mauritius	Investments	(7,991)	2,349,800	2,812	2,346,988
Kazakhstan Hong Kong Development Fund CV	25.00%	Netherlands	Investments	—	—	—	—
ADM Kazakhstan Capital Restructuring Fund CV	49.50%	Netherlands	Investments	(106,055)	5,738	4,100	1,638

2009

<i>Funds</i>	<i>Ownership ip, %</i>	<i>Country</i>	<i>Activity</i>	<i>Group's share in net income / (loss)</i>	<i>Total assets</i>	<i>Total liabilities</i>	<i>Net assets</i>
Falah Growth Fund LP	10.00%	Cayman Islands	Investments	(11,179)	95,432	24,691	70,741
Wolfenson Capital Partners LP	9.94%	Cayman Islands	Investments	(78,808)	6,872,641	89,823	6,782,818
Aureos Central Asia Fund LLC	14.28%	Republic of Mauritius	Investments	(24,472)	296,964	13,109	2,283,855
Kazakhstan Growth Fund LP	49.99%	Cayman Islands	Investments	(142,204)	24,463	15,889	8,564

Additional information on investment funds is given in Notes 13 and 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

8. Investment securities

Available-for-sale securities comprise:

	<i>2010</i>	<i>2009</i>
Bonds of the Ministry of Finance of RK	6,209,773	1,186,320
Corporate bonds	20,111,220	2,828,120
Notes of National Bank of RK	–	3,328,233
Available-for-sale securities	26,320,993	7,342,673

As at 31 December 2010 concentration of investment available-for-sale securities purchased at the active market on five large issuers amounted to KZT 20,420,226 thousand or 77.6% of the total amount of available-for-sale securities (2009: KZT 1,925,436 thousand or 26% of the total amount of available-for-sale securities).

Held-to-maturity securities comprise:

	<i>2010</i>	<i>2009</i>
Corporate bonds	4,431,669	–
Held-to-maturity securities	4,431,669	–

As at 31 December 2010 held-to-maturity securities are represented by bonds of Bank CenterCredit JSC.

In February 2011 held-to-maturity securities totaling KZT 4,131,669 were fully redeemed.

9. Property and equipment

The movements in property and equipment were as follows:

	<i>Hardware</i>	<i>Vehicles</i>	<i>Other</i>	<i>Total</i>
Cost				
31 December 2008	19,839	6,927	24,758	51,524
Additions	1,219	–	865	2,084
31 December 2009	21,058	6,927	25,623	53,608
Additions	2,692	10,171	2,835	15,698
Disposal	–	(6,927)	–	(6,927)
31 December 2010	23,750	10,171	28,458	62,379
Accumulated depreciation				
31 December 2008	1,959	289	908	3,156
Charge for the year	1,846	722	6,299	8,866
31 December 2009	3,805	1,011	7,207	12,022
Charge for the year	9,577	848	–	10,425
Disposal	–	(1,010)	–	(1,010)
31 December 2010	13,382	849	7,207	21,438
Net book value				
31 December 2008	17,880	6,638	23,850	48,368
31 December 2009	17,253	5,916	18,415	41,585
31 December 2010	10,368	9,322	21,250	40,941

10. Taxation

The corporate income tax (CIT) expense comprises:

	<i>2010</i>	<i>2009</i>
Current corporate income tax charge	436,396	1,152,996
Deferred income tax benefit /charge – origination and reversal of temporary differences	(2,961)	(2,129)
Corporate income tax expense	433,435	1,150,867

Income of the Group and its subsidiaries is subject to corporate income tax in the Republic of Kazakhstan except for Kazyna Seriktes B.V, Kazyna Investment Holding Cooperatief U.A. and MRIF CASP C.V., which are subject to income tax in Netherlands.

In accordance with the changes to the tax legislation in 2010 as at 31 December 2010 and for subsequent periods corporate income tax (CIT) rate is fixed at 20%. The tax legislation effective in 2009 envisaged a decrease in the corporate income tax rate to 17.5% in 2013 and to 15.0% in 2014.

As at 31 December 2010, the Group's current CIT assets amounted to KZT 432,734 thousand. As at 31 December 2009 the Group's current CIT assets amounted to KZT 60,120 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

10. Taxation (continued)

A reconciliation of the CIT expense based on the statutory rate with actual is as follows:

	2010	2009
Profit before income tax	2,675,492	6,013,772
Statutory rate	20%	20%
Income tax at statutory rate	535,098	1,202,754
Non-deductible expenses	(93,494)	(99,831)
Change in unrecognized deferred CIT assets	(4,851)	47,471
Change in tax rate	69	473
Other	(3,387)	—
Corporate income tax expense	433,435	1,150,867

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise

Deferred corporate income tax reflects net tax effect of temporary differences between carrying amount of assets and liabilities for financial statements purposes and the amount to be determined for tax purposes. Tax effect of temporary differences as of 31 December 2010 and 2009, is as follows:

	<i>Origination and reversal of temporary differences in the consolidated statement of comprehensive income</i>		<i>Origination and reversal of temporary differences in the consolidated statement of comprehensive income</i>		
Tax effect of deductible temporary differences:	2008	2009	2009	2010	2010
Tax losses carried forward	—	47,471	47,471	(4,851)	42,620
Property and equipment	1,656	(238)	(1,894)	2,443	549
Trade accounts payable	1,413	2,367	3,780	518	4,298
Unrecognized deferred CIT assets	—	(47,471)	(47,471)	4,851	(42,620)
Net deferred tax assets	243	2,129	1,886	2,961	4,847

Tax losses carried forward represent losses from derivatives with maturities in 2019. Deferred tax assets were not recognized with respect to this item due to low probability that in future the taxable income will flow to the Group against which these tax benefits could be utilized.

11. Equity

In November 2010 at the general meeting of Shareholders the Group has declared and placed 1,000,000 ordinary shares with offering price of KZT 15,000 per one ordinary share, which were fully purchased and paid by the Group's sole shareholder "Samruk-Kazyna" Sovereign Welfare Fund.

	<i>Ordinary shares</i>		
	<i>Number of authorized shares</i>	<i>Number of issued shares</i>	<i>Offering price (KZT)</i>
As at 31 December 2008	52,040,000	52,040,000	52,040,000
As at 31 December 2009	52,040,000	52,040,000	52,040,000
Increase of share capital	1,000,000	1,000,000	15,000,000
As at 31 December 2010	53,040,000	53,040,000	67,040,000

In 2010 at the general meeting of Shareholders the Group has declared and paid dividends for 2009 financial year totaling KZT 729,441 thousand (2009: KZT 114,438 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

12. Personnel and other operating expenses

Salary and other payments to personnel and administrative and other operating expenses comprise:

	2010	2009
Salaries and other payments to employees		
Salaries and bonuses	(221,775)	(204,240)
Other taxes from salary fund	(20,792)	(20,317)
Provision for vacations	(8,621)	(7,119)
	(251,188)	(231,676)
Administrative and other operating expenses		
Professional fees	(66,201)	(24,037)
Business trip and related expenses	(44,271)	(21,583)
Rent	(42,514)	(46,587)
Information and telecommunication services	(20,154)	(14,984)
Brokerage services	(17,536)	(6,774)
Taxes, other than income tax	(10,684)	(4,680)
Legal services	(9,103)	(12,243)
Training	(7,663)	(2,266)
Insurance	(3,947)	(2,210)
Advertisement and marketing	(3,714)	(1,725)
Bank charges and fee and commission expenses	(3,081)	(11,393)
Utilities	(2,818)	(617)
Stationery	(1,074)	(1,915)
Other	(9,896)	(11,061)
	(242,656)	(162,075)

13. Commitments and contingencies

As at 31 December 2010 total investment commitments of all investors to investment funds amounted to KZT 333,679,000 thousand (2009: KZT 261,645,904 thousand), in which the Group's share amounts to KZT 63,416,544 (2009: KZT 41,637,021). Financing under these commitments are to be made upon demand of investment funds over a period of between 3 and 5 years.

The Group's investment commitments and ownership in investment funds are set out in the following table:

	31 December 2010				
	<i>The Group's share in equity of investment fund</i>	<i>Total investment commitments</i>	<i>Total Group's share</i>	<i>Actual investments made by the Group</i>	<i>Group's share in outstanding investment commitments</i>
Kazakhstan - Tajikistan Growth					
Fund of Direct Investments JSC	80.00%	4,720,000*	3,776,000	46,720	3,729,280
CITIC-Kazyna Investment Fund LP	50.00%	29,559,000	14,749,941	294,387	14,455,554
Falah Growth Fund LP	10.00%	73,750,000	7,375,000	338,236	7,036,764
Macquarie Renaissance					
Infrastructure Fund	4.80%	92,925,000	4,424,996	781,548	3,643,448
Kazakhstan Growth Fund LP	49.99%	11,800,000*	5,899,993	284,682	5,615,311
Wolfenson Capital Partners LP	9.94%	36,850,000	3,664,954	778,940	2,886,014
Aureos Central Asia Fund LLC	14.28%	10,325,000	1,474,410	342,788	1,131,622
Kazakhstan Hong Kong					
Development Fund CV	25.00%	59,000,000	14,750,000	872	14,749,128
ADM Kazakhstan Capital					
Restructuring Fund CV	49.50%	14,750,000*	7,301,250	106,889	7,194,361
		333,679,000	63,416,544	2,975,062	60,441,482

*Total amount of investment commitments on these funds may be increased by additional agreement between the parties as follows: Kazakhstan - Tajikistan Growth Fund of Direct Investments JSC – up to KZT 11,800,000, Kazakhstan Growth Fund LP – up to KZT 18,437,500, ADM Kazakhstan Capital Restructuring Fund CV – up to KZT 33,187,500.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

13. Commitments and contingencies (continued)

			2009		
			<i>The Group's share in equity of investment fund</i>	<i>Total investment commitments</i>	<i>Group's share in outstanding investment commitments as at 31 December</i>
Kazakhstan - Tajikistan Growth Fund of Direct Investments JSC	80.00%	4,750,720*	3,800,576	46,720	3,753,856
CITIC-Kazyna Investment Fund LP	50.00%	29,751,384	14,845,941	16,815	14,829,126
Falah Growth Fund LP	10.00%	74,230,000	7,423,000	73,199	7,349,801
Macquarie Renaissance Infrastructure Fund	4.80%	93,529,800	4,453,796	14,753	4,439,043
Kazakhstan Growth Fund LP	49.99%	11,876,800*	5,938,393	—	5,938,393
Wolfenson Capital Partners LP	9.94%	37,115,000	3,691,309	874,795	2,816,514
Aureos Central Asia Fund LLC	14.28%	10,392,200	1,484,006	332,438	1,151,568
		261,645,904	41,637,021	1,358,720	40,278,301

* Total amount of investment commitments on these funds may be increased by additional agreement between the parties as follows: Kazakhstan - Tajikistan Growth Fund of Direct Investments JSC – up to KZT 11,878,800, Kazakhstan Growth Fund LP – up to KZT 8,557,500.

In March 2011 the Group has invested additional capital to Macquarie Renaissance Infrastructure Fund in the amount of KZT 838,296,926 for further financing.

Political and economic environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, default of certain leading Kazakhstani financial institutions and tighter credit conditions within Kazakhstan. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Legal actions and claims

The Group does not believe that there are pending or threatened claims, which individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations. The Group has no any legal actions and claims as at the reporting date.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued as at 31 December 2010. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***14. Risk management****Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Group Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***14. Risk management (continued)****Introduction (continued)***Group Investment Committee*

Investment Committee takes decisions with respect to liquidity management policy.

Risk measurement and reporting systems

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions (Monitoring principle). Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating (Limiting principle). Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

14. Risk management (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives.

		2010	2009
Assets			
Cash and cash equivalents (excluding cash on hand)	5	11,821,187	15,152,514
Amounts due from credit institutions	6	30,056,179	29,778,090
Financial instruments at fair value through profit or loss (excluding equity securities)	7	—	157,676
Investment securities:			
-available-for-sale (excluding equity securities)	8	26,320,993	7,342,673
-held-to-maturity	8	4,431,669	—
Loan to related party		—	6,000,000
Other assets		7,805	20,207
Total assets		72,637,833	58,451,160
Contingent liabilities		(60,441,482)	(40,278,301)
Total credit risk exposure		12,196,351	18,172,859

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The geographical concentration of Group's monetary assets and liabilities is set out below:

2010	Republic of Kazakhstan	Total
Assets		
Cash and cash equivalents	11,821,187	11,821,187
Amounts due from credit institutions	30,056,179	30,056,179
Financial instruments at fair value through profit or loss	—	—
Investment securities:		
-available-for-sale	26,320,993	26,320,993
-held-to-maturity	4,431,669	4,431,669
Loan to related party	—	—
Other assets (monetary)	7,805	7,805
Total assets	72,637,833	72,637,833
Liabilities		
Trade and other accounts payable	(18,438)	(18,438)
Total liabilities	(18,438)	(18,438)
Net position on total assets and liabilities	72,619,395	72,619,395
2009	Republic of Kazakhstan	Total
Assets		
Cash and cash equivalents	15,152,514	15,152,514
Amounts due from credit institutions	29,778,090	29,778,090
Financial instruments at fair value through profit or loss	157,676	157,676
Investment securities available for sale	7,342,673	7,342,673
Loan to related party	6,000,000	6,000,000
Other assets (monetary)	20,207	20,207
Total assets	58,451,160	58,451,160
Liabilities		
Trade and other accounts payable	(21,600)	(21,600)
Financial instruments at fair value through profit or loss	(237,354)	(237,354)
Total liabilities	(258,954)	(258,954)
Net position on total assets and liabilities	58,192,207	58,192,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

14. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations.

Analysis of financial liabilities by remaining contractual maturities

	2010					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Financial liabilities						
Trade and other accounts payable	(18,438)	–	–	–	–	(18,438)
Total undiscounted financial liabilities	(18,438)	–	–	–	–	(18,438)

	2009					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Trade and other accounts payable	(21,600)	–	–	–	–	(21,600)
Financial instruments at fair value through profit or loss	(237,354)	–	–	–	–	(237,354)
Total undiscounted financial liabilities	(258,954)	–	–	–	–	(258,954)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading portfolio and non-trading positions is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on interest rate gap for predetermined periods. Positions are monitored on a monthly basis, and hedging strategy is used to maintain risks within the established limits. The sensitivity of interest income to probable changes in interest rates is the effect of the assumed changes in interest rates on the net interest income for one year, based on the financial assets and financial liabilities.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement

Currency	Increase by %	Sensitivity of equity
Tenge	1.00%	540,291
USD	1.00%	390,234
Currency	Decrease by %	Sensitivity of equity
Tenge	(1.00%)	(540,291)
USD	(1.00%)	(390,234)

Currency	Increase by %	Sensitivity of equity
Tenge	1.00%	227,321
USD	1.00%	–
Currency	Decrease by %	Sensitivity of equity
Tenge	(1.00%)	(227,321)
USD	(1.00%)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

14. Risk management (continued)

Market risk (continued)

Currency risk

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

Currency	2010		2009	
	Increase in currency rate, in %	Effect on profit before tax	Increase in currency rate, in %	Effect on profit before tax
USD	8.31%	3,823,749	10.00%	2,976,659
EUR	12.86%	5,034	10.00%	3,234
GBP	13.34%	5,027	10.00%	–

Currency	2010		2009	
	Increase in currency rate, in %	Effect on profit before tax	Increase in currency rate, in %	Effect on profit before tax
USD	(8.31%)	(3,823,749)	(10.00%)	(2,976,659)
EUR	(12.86%)	(5,034)	(10.00%)	(3,234)
GBP	(13.34%)	(5,027)	(10.00%)	–

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including internal audit.

15. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

2010	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	–	–	2,928,430	2,928,430
Investment securities available for sale	26,320,993	–	–	26,320,993
Financial liabilities				
Financial instruments at fair value through profit or loss	–	–	–	–
2009	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	–	157,676	1,319,748	1,477,424
Investment securities available for sale	–	7,342,673	–	7,342,673
Financial liabilities				
Financial instruments at fair value through profit or loss	–	237,354	–	237,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

15. Fair values of financial instruments (continued)

Financial instruments at fair value through profit or loss include unquoted equity securities, of nine investment funds. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. However, in most cases, these funds have not started their operations actively and investments with a carrying amount of KZT 1,704,537 thousand were acquired during the current year (2009: KZT 967,799 thousand). Thus management believes that it is unlikely that the fair value of these investments at the year end would differ significantly from their carrying amount.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	<i>Gains/ (losses) recognized in the income statement</i>	
	<i>2010</i>	<i>2009</i>
Financial assets		
Financial instruments at fair value through profit or loss as at 1 January	1,319,748	351,949
Purchased during the period	1,704,537	967,799
Realized during the year	(95,855)	–
Total level 3 financial assets	2,928,430	1,319,748

As at 31 December 2010 and 2009 all financial instruments of the Group recorded at carrying value in the consolidated statement of financial position approximate to their fair value.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

16. Maturity analysis of financial assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled as at 2010 and 2009. See Note 18 "Risk management", "Liquidity risk" for the Group's contractual undiscounted repayment obligations:

	2010						
	On demand	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents	336,599	11,484,588	–	–	–	–	11,821,187
Amounts due from credit institutions	–	–	8,827,060	–	21,229,119	–	30,056,179
Financial instruments at fair value through profit or loss	–	–	–	–	–	2,928,430	2,928,430
Investment securities:							
-available-for-sale	–	–	1,965,800	5,991,104	18,364,089	–	26,320,993
-held-to-maturity	–	4,431,669	–	–	–	–	4,431,669
Loan to related party	–	–	–	–	–	–	–
Other financial assets	–	7,805	–	–	–	–	7,805
	336,599	15,924,062	10,792,860,	5,991,104	39,593,208	2,928,430	75,566,263
Liabilities:							
Trade and other accounts payable	(57,251)	–	–	–	–	–	(57,251)
	(57,251)	–	–	–	–	–	(57,251)
Net position	279,348	15,924,062	10,792,860	5,991,104	39,593,208	2,928,430	75,509,012
Accumulated difference	279,348	16,203,410	26,996,270	32,987,374	72,580,582	75,509,012	–

	2009						
	On demand	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents	750,032	14,402,482	–	–	–	–	15,152,514
Amounts due from credit institutions	–	–	29,778,090	–	–	–	29,778,090
Financial instruments at fair value through profit or loss	–	2,798	–	154,878	–	1,319,748	1,477,424
Investment securities:							
-available-for-sale	–	3,388,524	18,725	2,280,553	1,654,871	–	7,342,673
-held-to-maturity	–	–	–	–	–	–	–
Loan to related party	–	600,000	1,800,000	3,600,000	–	–	6,000,000
Other financial assets	–	5,276	14,931	–	–	–	20,207
	750,032	18,399,080	31,611,746	6,035,431	1,654,871	1,319,748	59,770,908
Liabilities:							
Trade and other accounts payable	–	(35,299)	(17,883)	–	–	–	(53,182)
Financial instruments at fair value through profit or loss	–	–	(237,354)	–	–	–	(237,354)
	–	(35,299)	(255,237)	–	–	–	(290,536)
Net position	750,032	18,363,781	31,356,509	6,035,431	1,654,871	1,319,748	59,480,372
Accumulated difference	750,032	19,113,813	50,470,322	56,505,753	58,160,624	59,480,372	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of Tenge)

17. Related party disclosures

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The transactions, outstanding balances and relevant income and expense arising from related party transactions are as follows:

Note	2010		2009	
	Government institutions	Entities under common control	Government institutions	Entities under common control
Cash and cash equivalents				
Deposits as at 1 January	–	1,610,420	–	156
Deposits received	–	51,630,060	–	1,610,264
Deposits paid	–	(52,934,600)	–	–
Deposits as at 31 December	–	305,880	–	1,610,420
Interest rates	–	0.04% to 1.5%	–	3.6%
Amounts due from credit institutions				
Deposits as at 1 January	–	8,265,190	–	–
Deposits received	–	–	–	8,265,190
Deposits paid	–	(6,180,801)	–	–
Deposits as at 31 December	–	2,084,389	–	8,265,190
Interest rates	–	4.9% to 9.5%	–	5.1%
Investment securities available for sale				
Securities as at 1 January	1,186,320	379,965	–	–
Securities purchased during the year	5,023,423	11,125,586	–	–
Securities sold during the year	–	(1,292,773)	–	–
Securities as at 31 December	6,209,773	10,212,778	–	–
Interest rates	5% to 13%	5% to 13%	–	–
Loan to related party				
Loan to related party as at 1 January	–	6,000,000	–	11,545,077
Loan to related party issued during the year	–	–	–	–
Loan to related party repaid during the year	–	(6,000,000)	–	(5,545,077)
Loan to related party as at 31 December	–	–	–	6,000,000
Interest rates	–	6.5%	–	6.5%
Trade and other accounts payable				
Trade and other accounts payable as at 1 January	–	479	–	–
Trade and other accounts payable acquired during the year	–	6,231	–	479
Trade and other accounts payable paid during the year	–	(6,231)	–	–
Trade and other accounts payable as at 31 December	–	479	–	479
Interest income				
Amounts due from credit institutions	–	210,767	–	509,150
Financial instruments at fair value through profit or loss	–	–	–	–
Investment securities available for sale	–	149,571	–	–
Loan to related party	–	–	–	864,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)*(In thousands of Tenge)***17. Related party disclosures (continued)**

Included in the table above are the following transactions with related parties outstanding as at 31 December 2010 and 2009:

- a) Transactions with the shareholders, including deposit placement and attraction;
- b) Transactions with the other related parties, including loan granting and deposit placement and attraction; and
- c) Transactions with the key management personnel, including loan granting, deposit attraction, guarantee issue and receipt, general remuneration paid during the year.

Compensation of key management personnel comprising members the Management Board and Board of Directors included the following:

	<i>2010</i>	<i>2009</i>
Salaries and other short-term benefits	47,784	65,784
Social security costs	4,906	6,394
Total key management personnel compensation	52,690	72,178

Terms of the related party transactions

The above-mentioned balances have arisen in the normal course of business. Interest payable to the related parties and receivable there from is an amount charged at the standard market rates. Balances on the loans granted are secured as of the end of the year. For the years ended 31 December 2010 and 2009 the Group did not form any reserve for doubtful debts against the related parties' debt.